

STATEMENT
OF
THE HONORABLE JOHN A. GAUGHAN,
MARITIME ADMINISTRATOR
OF THE
DEPARTMENT OF TRANSPORTATION
BEFORE THE
THE SUBCOMMITTEE ON MERCHANT MARINE
HOUSE MERCHANT MARINE AND
FISHERIES COMMITTEE
ON
THE AUTHORIZATION REQUEST OF THE
MARITIME ADMINISTRATION
FOR FISCAL YEARS 1987 AND 1988

FEBRUARY 20, 1986

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON MERCHANT MARINE. MY NAME IS JOHN A. GAUGHAN, AND I AM THE MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION. IT IS A PLEASURE TO APPEAR THIS MORNING TO PRESENT THE VIEWS OF THE ADMINISTRATION WITH RESPECT TO THE AUTHORIZATION REQUEST OF THE MARITIME ADMINISTRATION FOR FISCAL YEARS 1987 AND 1988.

MR. CHAIRMAN. THE ADMINISTRATION CONTINUES TO SUPPORT THOSE ACTIONS NECESSARY TO ASSURE A COMPETITIVE U.S.-FLAG MERCHANT MARINE REQUIRED BY THE NATIONAL INTERESTS OF THE UNITED STATES. AT THE SAME TIME, THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 (GRAMM-RUDMAN-HOLLINGS LAW) MANDATES ANNUAL REDUCTIONS IN THE CURRENT BUDGET DEFICIT UNTIL A BALANCED BUDGET IS ACHIEVED IN 1991. AS WITH ALL OTHER PROGRAMS RECEIVING FEDERAL SUPPORT, IT HAS BEEN NECESSARY TO BALANCE THE ASSISTANCE PROVIDED THE U.S.-FLAG MERCHANT MARINE AGAINST THE NEED TO REDUCE THE FEDERAL DEFICIT. THIS HAS RESULTED IN SOME VERY DIFFICULT DECISIONS, BUT ONES THAT WE BELIEVE ARE BASED ON SOLID POLICY GROUNDS. THE ADMINISTRATION'S AUTHORIZATION REQUEST FOR THE MARITIME ADMINISTRATION FOR FISCAL YEARS 1987 AND 1988 GIVES RECOGNITION TO THE REQUIREMENTS OF THE GRAMM-RUDMAN-HOLLINGS LAW.

MR. CHAIRMAN. BEFORE I ADDRESS THE VARIOUS ELEMENTS OF OUR AUTHORIZATION REQUEST, MENTION SHOULD BE MADE OF FOUR LEGISLATIVE PROPOSALS THE ADMINISTRATION SUPPORTS IN ORDER TO PROMOTE THE U.S.-FLAG MERCHANT MARINE.

THE ADMINISTRATION WILL AGAIN PURSUE LEGISLATION THAT WILL AUTHORIZE SHIP OPERATORS TO BUILD OR ACQUIRE VESSELS OVERSEAS WITHOUT LOSS OF ELIGIBILITY FOR OPERATING-DIFFERENTIAL SUBSIDY (ODS). THIS LEGISLATION HAS BEEN INTRODUCED IN THE HOUSE OF REPRESENTATIVES AS H.R. 3141, AND WE LOOK FORWARD TO HEARINGS ON THIS BILL.

THE SECOND LEGISLATIVE PROPOSAL I WOULD LIKE TO MENTION IS THE LEGISLATION THAT WILL GIVE IMMEDIATE ELIGIBILITY TO FOREIGN-BUILT VESSELS BROUGHT UNDER U.S.-FLAG TO CARRY CARGOES FOR THE U.S. GOVERNMENT.

THE THIRD LEGISLATIVE PROPOSAL I WOULD LIKE TO MENTION IS THE DRAFT LEGISLATION THAT WOULD PROVIDE FOR A PROPORTIONAL REPAYMENT OF ODS WHERE MILITARY CARGO IS TRANSPORTED, AND WHERE OTHER PREFERENCE CARGOES ARE TRANSPORTED AT ABOVE WORLD FREIGHT RATES. U.S.-FLAG OPERATORS WHO ACCEPT THIS REDUCTION IN ODS WOULD BE AFFORDED A MORE FLEXIBLE ALTERNATIVE TO THE FORMAL 605(C) HEARING PROCEDURE FOR THE OPERATION OF SUBSIDIZED VESSELS ON ESSENTIAL TRADE ROUTES. THIS LEGISLATION PROPOSED BY THE ADMINISTRATION HAS NOT BEEN INTRODUCED IN THE CONGRESS.

ANOTHER LEGISLATIVE PROPOSAL THE ADMINISTRATION STRONGLY SUPPORTS WOULD EXTEND THE PARTIAL IMMUNITY FROM THE AUTOMATIC STAY PROVISIONS OF THE BANKRUPTCY CODE TO

CREDITORS WITH PREFERRED SHIP MORTGAGES, AND ENABLE THE SECRETARY OF TRANSPORTATION TO MORE EASILY FORECLOSE ON THE PREFERRED MORTGAGE OF A TITLE XI VESSEL IF THE OWNER DEFAULTS ON A GUARANTEED LOAN. THIS LEGISLATION WAS INTRODUCED IN THE HOUSE OF REPRESENTATIVES AS H.R. 3571 BY CONGRESSMEN LENT, JONES, BIAGGI, AND SNYDER. AS YOU KNOW, A SIMILAR BILL WAS INTRODUCED AS H.R. 2816 BY CONGRESSMEN BIAGGI, JONES AND SNYDER. WE LOOK FORWARD TO HEARINGS ON THESE BILLS IN THE NEAR FUTURE.

WE BELIEVE THAT THE ABOVE LEGISLATIVE PROPOSALS ARE CRUCIAL TO THE CONTINUED WELL-BEING OF THE U.S.-FLAG MERCHANT MARINE AND SOUND FISCAL POLICY.

TURNING NOW TO THE SPECIFICS OF THE AUTHORIZATION REQUEST, THE ADMINISTRATION IS REQUESTING A TOTAL OF \$388,193,000 FOR THE MARITIME ADMINISTRATION FOR FISCAL YEAR 1987: \$320 MILLION FOR ODS; \$5.5 MILLION FOR RESEARCH AND DEVELOPMENT ACTIVITIES; AND \$62,693,000 FOR OPERATIONS AND TRAINING ACTIVITIES.

OPERATING-DIFFERENTIAL SUBSIDY.

THE ADMINISTRATION WILL CONTINUE TO HONOR EXISTING ODS CONTRACTS. \$320 MILLION IS REQUESTED FOR THIS PURPOSE IN FISCAL YEAR 1987. THIS IS \$20.5 MILLION MORE THAN THE 1986 APPROPRIATION. WE ESTIMATE THAT THIS AMOUNT WILL BE SUFFICIENT TO PROVIDE ONGOING SUPPORT FOR 73 LINER AND 17 BULK VESSELS UNDER EXISTING CONTRACTS.

RESEARCH & DEVELOPMENT.

THE RESEARCH AND DEVELOPMENT (R&D) REQUEST IS FOR \$5.5 MILLION, A DECREASE OF \$4.4 MILLION FROM THE 1986 APPROPRIATION. THE ADMINISTRATION PROPOSES TO RELY MORE HEAVILY ON PRIVATE SECTOR FUNDING BEGINNING IN 1987. THIS WILL ENTAIL "PRIVATIZATION" OF THE COMPUTER AIDED RESEARCH OPERATIONS FACILITY LOCATED AT KINGS POINT, NEW YORK. IT IS ANTICIPATED THAT 1987 WOULD BE A TRANSITION PERIOD TO NO FEDERAL FUNDING FOR THESE ACTIVITIES.

OPERATIONS AND TRAINING

\$62,693,000 IS REQUESTED TO BE AUTHORIZED. \$53,343,000 FROM APPROPRIATIONS, COUPLED WITH \$9,350,000 TO BE DEFERRED AND BROUGHT FORWARD FROM 1986 WOULD PROVIDE A TOTAL PROGRAM OF \$62,693,000. THIS AMOUNT WOULD BE \$7,007,000 BELOW THE 1986 APPROPRIATION.

THE \$9,350,000 TO BE DEFERRED AND BROUGHT FORWARD CONSISTS OF \$8.5 MILLION FOR FUNDS APPROPRIATED FOR THE ACQUISITION AND CONVERSION COSTS OF A REPLACEMENT TRAINING SHIP FOR THE STATE UNIVERSITY OF NEW YORK MARITIME COLLEGE, AND THE \$850,000 BALANCE OF 1984 FUNDS FOR STATE SCHOOL TRAINING SHIPS FUEL ASSISTANCE.

OPERATIONS AND TRAINING ACTIVITIES IS DIVIDED INTO MARITIME EDUCATION AND TRAINING EXPENSES, NATIONAL SECURITY SUPPORT CAPABILITIES, AND OTHER OPERATIONS AND TRAINING PROGRAMS.

MARITIME EDUCATION AND TRAINING PROVIDES FOR THE OPERATION OF THE U.S. MERCHANT MARINE ACADEMY, ASSISTANCE TO THE SIX STATE MARITIME ACADEMIES, AND ADDITIONAL TRAINING FOR ELIGIBLE MERCHANT MARINE PERSONNEL.

THE \$20,278,000 REQUESTED FOR THE CONTINUED OPERATION OF THE MERCHANT MARINE ACADEMY WILL COVER COST INCREASES IN ONGOING EXPENSES AND \$300,000 FOR DESIGN WORK TO REPLACE OR REBUILD THE INEFFICIENT HEATING PLANT WHICH IS OVER 40 YEARS OLD.

THE \$1,035,000 FOR FINANCIAL ASSISTANCE TO STATE MARITIME ACADEMIES IS LIMITED TO PROVIDING STUDENT INCENTIVE PAYMENTS TO CADETS CURRENTLY RECEIVING SUCH PAYMENTS. DUE TO THE CONTINUING OVERSUPPLY OF MERCHANT MARINE OFFICERS AND THE URGENT NEED TO REDUCE FEDERAL SPENDING, FEDERAL SUPPORT IN THE FORM OF DIRECT PAYMENTS AND MAINTENANCE OF SCHOOLSHIPS IS NOT PROVIDED FOR IN THE REQUESTED AMOUNT. THE MARITIME ADMINISTRATION WILL BE WORKING WITH ANY OF THE SCHOOLS THAT ARE INTERESTED IN CONTINUING TO USE THE SHIPS, BUT THE SCHOOLS MUST PAY FOR THE COST OF MAINTAINING THE VESSELS, AND BE RESPONSIBLE FOR THESE VESSELS. EVEN WITH THE REDUCED FEDERAL SUPPORT THERE WILL BE AN ADEQUATE OFFICER WORKFORCE AVAILABLE TO MAN U.S.-FLAG MERCHANT SHIPS.

THE \$1,135,000 FOR EXPENSES NECESSARY FOR ADDITIONAL TRAINING WILL PROVIDE FOR THE COSTS OF ADMINISTRATION OF THE MARITIME EDUCATION AND TRAINING ACTIVITIES AT THE HEADQUARTERS LEVEL, TRAINING IN SHIPBOARD FIREFIGHTING, AND FOR TRAINING COURSES IN THE OPERATION AND MAINTENANCE OF

MEDIUM AND SLOW SPEED MARINE MAIN PROPULSION DIESEL ENGINES. THE INDUSTRY ROLE IN MARITIME TRAINING CONTINUES TO BE AN ESSENTIAL PART OF OVERALL MARITIME TRAINING. WE WILL CONTINUE TO COOPERATE WITH SUCH EFFORTS WITH RESPECT TO TRAINING THAT HAS NATIONAL DEFENSE OR OTHER NATIONAL INTEREST UTILITY AND WILL CONTINUE OUR OWN TRAINING ASSISTANCE PROGRAM.

FOR THE NATIONAL SECURITY SUPPORT ACCOUNT, \$13,421,000 IS REQUESTED. THAT ACCOUNT FUNDS EXPENSES ASSOCIATED WITH THE NATIONAL DEFENSE RESERVE FLEET (NDRF) AND EMERGENCY PLANNING/OPERATIONS PROGRAMS. EACH PROGRAM IS DIRECTLY SUPPORTIVE OF THE MARITIME ADMINISTRATION'S NATIONAL SECURITY RESPONSIBILITIES. \$11,903,000 IS REQUESTED FOR THE NDRF PROGRAM WHICH PROVIDES FOR THE PRESERVATION, MAINTENANCE AND SECURITY OF SHIPS IN THE NDRF, AND FOR THE ADMINISTRATION OF THE SHIP TRANSFER AND SHIP DISPOSAL PROGRAMS. THE 1987 ESTIMATE INCLUDES \$3,855,000 FOR INITIATION OF A MULTIYEAR PROGRAM FOR CAPITAL INVESTMENTS, INCLUDING DREDGING, FACILITY ALTERATIONS AND MAINTENANCE AND REPLACEMENT OF SUPPORT CRAFT. \$1,518,000 IS REQUESTED FOR THE EMERGENCY PLANNING/OPERATIONS ACTIVITY OF THE MARITIME ADMINISTRATION.

FINALLY, FOR OTHER OPERATIONS AND TRAINING, \$26,824,000 IS REQUESTED TO PROVIDE FOR THE DIRECTION AND ADMINISTRATION OF OTHER AGENCY PROGRAMS AND FOR PROGRAM COSTS NOT SEPARATELY AUTHORIZED. THE REQUEST REFLECTS A DECREASE OF 37 PERMANENT POSITIONS AND \$1,740,000.

MR. CHAIRMAN. THE ADMINISTRATION IS NOT REQUESTING FUNDS FOR THE INCREASED U.S.-FLAG PARTICIPATION IN CONCESSIONAL AGRICULTURAL EXPORTS REQUIRED BY THE RECENTLY ENACTED FARM BILL (PUBLIC LAW 99-198). THE ADMINISTRATION SUPPORTS OUR EXISTING CARGO PREFERENCE LAWS AS THEY WERE APPLIED PRIOR TO THE BLENDED CREDIT DECISION (TRANSPORTATION INSTITUTE V. DOLE), AND IS OPPOSED TO ANY EXTENSION OR CONTRACTION OF THE APPLICATION OF THESE LAWS. AS YOU KNOW, THAT DECISION IS CURRENTLY UNDER APPEAL. ADDITIONALLY, WE HAVE PROPOSED SUPPLEMENTAL 1986 AND 1987 APPROPRIATIONS LANGUAGE WHICH WOULD PROHIBIT THE SECRETARY FROM ISSUING OBLIGATIONS TO FINANCE THESE INCREASED COSTS. FINALLY, SEPARATE LEGISLATION TO REPEAL THESE REQUIREMENTS WILL BE SUBMITTED.

MR. CHAIRMAN. AS YOU ARE AWARE, THE ADMINISTRATION'S FISCAL YEAR 1987 BUDGET REQUEST PROPOSES NO NEW TITLE XI LOAN GUARANTEE COMMITMENTS IN 1987 AND BEYOND.

PURSUANT TO THE TITLE XI GUARANTEE PROGRAM, THE SECRETARY OF TRANSPORTATION GUARANTEES OBLIGATIONS TO FINANCE THE CONSTRUCTION, RECONSTRUCTION OR RECONDITIONING OF U.S.-FLAG VESSELS. THE SECRETARY OF COMMERCE HAS SIMILAR AUTHORITY WITH RESPECT TO FISHING VESSELS AND FISHERY FACILITIES. RECENTLY, THE TITLE XI GUARANTEE PROGRAM HAS SUFFERED A NUMBER OF VERY SERIOUS DEFAULTS AS A RESULT OF THE CONTINUED DEPRESSED CONDITION OF THE INDUSTRY. THE RESERVES IN THE FEDERAL SHIP FINANCING FUND HAVE BEEN EXHAUSTED AND SUBSTANTIAL BORROWING FROM THE U.S. TREASURY

HAS BEEN AND WILL BE REQUIRED DURING THIS PERIOD OF SEVERE BUDGET DEFICIT. FOR THESE REASONS, THE ADMINISTRATION HAS PROPOSED NO NEW TITLE XI LOAN GUARANTEE COMMITMENTS IN 1987 AND BEYOND.

I AM READY TO WORK WITH THE COMMITTEE REGARDING ANY ISSUES WHICH MAY ARISE AS A RESULT OF THE PRESIDENT'S BUDGET. WHILE YOU MAY HEAR THAT THE REDUCTIONS AND ACTIONS WE ARE PROPOSING ARE VERY PAINFUL, WE THINK THEY ARE NECESSARY IN THE CONTEXT OF THE FEDERAL BUDGET PROBLEM AND ARE GROUNDED WITHIN SOLID POLICY FRAMEWORK. I BELIEVE THE PROPOSED BUDGET PROVIDES FOR THE CONTINUED FOSTERING OF A STRONG AND COMPETITIVE U.S.-FLAG MERCHANT MARINE.

MR. CHAIRMAN. THAT CONCLUDES MY PREPARED STATEMENT. I WILL BE PLEASED TO ANSWER ANY QUESTIONS THAT YOU OR THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE. THANK YOU.